Annual Report

1986

SEDCO

87-05908/

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The Corporation

Since establishment in 1963, the Saskatchewan Economic Development Corporation has built a province-wide reputation for developing and providing programs promoting economic development in Saskatchewan.

The Corporation provides a wide range of financial and property services to business in nearly all sectors of the provincial economy to facilitate industrial development. While these services can be flexibly adapted to individual situations, emphasis is directed to firms engaged in manufacturing, processing and tourism.

In all its activities, SEDCO's priority is to create and maintain jobs for people in Saskatchewan.

SEDCO's 53 employees are located in Regina and Saskatoon to deliver services conveniently and efficiently throughout the province.

SEDCO

Letter of Transmittal

March 15, 1987

To His Honour
The Honourable Frederick W. Johnson
Lieutenant-Governor of the Province of Saskatchewan

Sir:

I have the honour to submit herewith the Annual Report of the Saskatchewan Economic Development Corporation for the year ended December 31, 1986, including the financial statements duly certified by the Provincial Auditor in accordance with the Industrial Development Act.

I have the honour to be, Sir,

Your obedient servant,

Hon. Graham Taylor
Minister Responsible
Saskatchewan Economic Development Corporation

Chairman's Message

SEDCO has become increasingly active in fulfilling its mandate to stimulate Saskatchewan's economy by providing commercial loans and property services. To that end, 1986 was a successful year for the Corporation.

Notably higher levels of activity in all areas of operation coupled with negligible change in administrative costs contributed to increased total revenue. As reflected in these financial statements, SEDCO achieved a modest profit on operations.

The measure of effective economic stimulation is the number of jobs created, and, in that respect, SEDCO has been successful. Last year alone, the Corporation's activities resulted in creation of an estimated 450 direct jobs for Saskatchewan people—more than double the 1985 achievement of 220 new jobs. The Board of Directors views with pride this accomplishment by the Corporation's management and staff.

While the increases in corporate activity did improve operating results in 1986, other factors worked to counteract those gains and to create a deficit. A primary offsetting factor was the need to absorb the losses from doubtful accounts on loans made several years ago, along with property and share value writedowns.

Providing financial services to Saskatchewan's ambitious young people is among the valuable services SEDCO provides. Our Youth Entrepreneur Program is one of the more creative government programs, and it has proven to be a major incentive for business start ups among our youth. It is clear that the desire to start one's own business is widespread among Saskatchewan's young people, and we believe that our program is responding successfully to that need. For that reason, we expanded the Youth Entrepreneur Program, and, as a result, 48 businesses started in 1986 creating 95 full-time jobs throughout the province.

SEDCO has taken the initiative in developing another imaginative approach to assist a sector of our economy that has been receiving restricted support from its bankers. Realizing that equipment manufacturers, their retailers, and Saskatchewan farmers have been confronted with serious economic difficulties, SEDCO developed and launched the AgriLease program. AgriLease offers financial assistance to Saskatchewan's agricultural equipment manufacturers to produce equipment for lease to Saskatchewan farmers. The program will help to develop and preserve jobs, and will lend support to the province's major industry.

On behalf of the Board of Directors, I extend appreciation to Bob Andrew for his support during his tenure as Minister responsible. We welcomed Graham Taylor as Minister in November and look forward to working with him.

As Chairman of the Board, I want to commend the dedication of the management team at SEDCO. We will continue to build Saskatchewan—to serve our business community, to create jobs, and to encourage the growth of our economy.

Larry A. Kyle, Q.C.
Chairman of the Board

President's Report

SEDCO's operational performance improved in 1986 reflecting a continued aggressive approach in all areas of operation. Our activities also resulted in a positive impact on the company's asset base and revenue.

Several factors combined to improve the Corporation's 1986 operating profit to $659,000 compared with an operating loss of $110,000 in 1985. First, significant volumes in both lending and property activity increased SEDCO's asset base by $28.4 million. Second, interest revenue rose above last year's level even though interest rates were lower in 1986. Third, net revenue improved while expenses were held at the 1985 level.

We achieved a notable expansion in our loan portfolio and effected remarkable gains in properties activities. The number of loans approved last year nearly doubled 1985 results, and we sold more property than in the previous three aggregate years. As the Chairman mentioned in his message, these activities helped to create needed employment in the province.

Efforts continued toward resolving problem areas in both our loan and property portfolios. However, difficulties in the farming economy and the slump in the natural resource sector prevented that from happening to the extent we desired. At year end, it was necessary to set aside additional reserves in both our loan and property portfolios. Allowance for doubtful accounts, reserves for share investments and property holdings for 1986 totalled $10.6 million and contributed to an overall loss of $9.9 million for the Corporation.

SEDCO is establishing a tradition in developing programs catering to specific business financial needs that we observe in Saskatchewan's economy. In 1986, we provided additional opportunity for business in the province by improving services through program enhancement and development.

We enriched the Youth Entrepreneur Program by expanding eligibility requirements and doubling the maximum loan amount thereby presenting business opportunities for more of Saskatchewan's young people.

Late in the year, we introduced the AgriLease program. This unique program is an important addition to SEDCO's services because it presents advantages to Saskatchewan's farming community—to agricultural equipment manufacturers, to dealers, and, of course, to our farmers.

Small business remained at the centre of our attention, and, in 1986, 71 per cent of the loans written were for less than $100,000.

During the year we initiated four construction projects in the province. Planned and co-ordinated by SEDCO, these projects generated significant private sector investment and created valuable employment in the construction industry.

We are optimistic about the coming year. Our direction and expectations are for continued growth. We will maintain our efforts to decrease loan losses and property writedowns. We will continue to seek opportunities for program improvements and developments to assist small and medium-sized businesses in Saskatchewan.

We gratefully acknowledge the support and guidance from the Board of Directors. SEDCO staff once again earned our respect through their dedication and enthusiasm. Together we will continue to support economic development and create employment in the province.

Douglas S. Price
President and
Chief Executive Officer

Board of Directors

Larry A. Kyle Q.C.
Chairman, Regina

Hon. Graham Taylor
Vice-Chairman
Regina

James H. Coventry
Nipawin

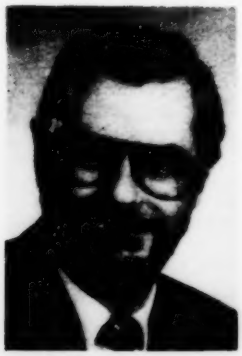
Laurianne A.
Dellabough
Moose Jaw

Brian J. Keple
Regina

Doug R. Osborne
Regina

J. Ross Reibling
Regina

Madelene M. Smith
Saskatoon



Ian Disbery
Secretary, Regina

Activity Highlights

SEDCO's mandate is to provide a wide range of financial and property services to facilitate industrial development in Saskatchewan. During 1986, SEDCO continued to aggressively market programs and services. These efforts are reflected in the Corporation's accomplishments and results for the year.

Loans & Investments

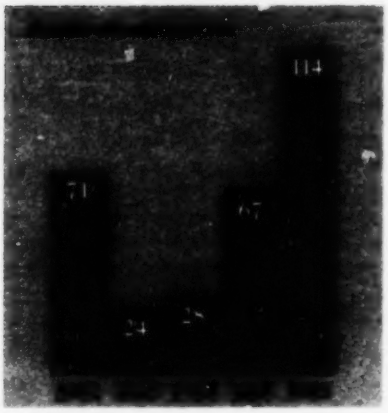
- Continuing in a growth pattern, loan activity during 1986 of 114 loan approvals totalled approximately $46.1 million—almost double the previous year's number. In 1985, 67 loans were approved for a total approximate value of $40 million. Seventy-one per cent of the loan approvals in 1986 were for less than $100,000 compared with 64 per cent in 1985.

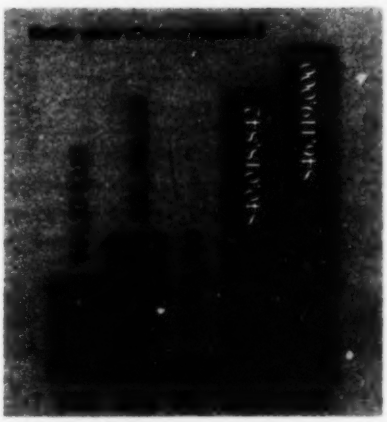
- SEDCO developed, and introduced in September, the AgriLease program offering funds to Saskatchewan farm equipment manufacturers to produce shortline equipment for lease to Saskatchewan farmers.

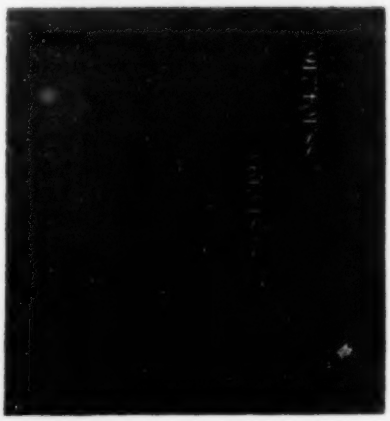
- The Youth Entrepreneur Program was enhanced in March, 1986, and, during the year, 48 young people started businesses through the program creating 95 full-time jobs. Loans approved totalled approximately $770,000.

- For the first time in several years, SEDCO's asset base increased, reaching $178.5 million at year end—up $28.4 million over 1985.

- Even though SEDCO's 1986 interest rates were lower than in 1985, interest revenue for 1986 increased, totalling approximately $13.6 million compared with $12.8 million the previous year.







Properties

- Property activity during 1986 produced record breaking sales of industrial and commercial real estate. Total sales of approximately $8.1 million resulted in profit of $885,000 compared with $5.8 million and $435,000 in 1985.

- Sales in 1986 included 40 acres in AgriPlace for the Saskatoon arena, five transactions at Holiday Park Industrial Centre in Saskatoon totalling 7.2 acres, and the former General Motors Complex in Regina.

- SEDCO's average rental occupancy rate for the year was 85.5 per cent compared with the 1985 rate of 83 per cent. At year end, 140 tenants were occupying 637,000 square feet (59,117 square meters) throughout the province. Rental income for the year was approximately $5.0 million compared to $4.8 million in 1985.

- A total of nearly 210 person years of employment were created in 1986 as a result of construction activity.

- Two construction projects were completed in 1986—Saskatoon Farm Equipment at AgriPlace and the third research mall at Innovation Place in Saskatoon.

- At year end, four projects were still under construction. They included servicing at both AgriPlace and Innovation Place, the east addition to SEDCO Centre, and a multi-tenant building at Holiday Park Industrial Centre in Saskatoon.

Loan Size			Number	Dollar Amount
$ 0	—	$ 50,000	69	$ 1,376,630
50,001	—	100,000	12	944,600
100,001	—	250,000	8	1,444,400
250,001	—	500,000	9	3,688,500
500,001	—	1,000,000	7	4,314,400
1,000,001	—	1,500,000	2	3,000,000
	Over	1,500,000	7	31,350,000
			114	$46,119,000

More than 2,000 inquiries were handled in 1986.

Provincial Economic Benefits

The value of SEDCO's activities is measured more by the benefits rendered to Saskatchewan's economy than by its operating results.

In 1986, SEDCO's activities gained significantly more benefits for Saskatchewan's economy than in 1985. The impact of loan and construction activities created an estimated 450 direct jobs for the province's residents. The resultant wage values were in excess of $9.5 million while increased tax revenue accruing to the provincial government exceeded $600,000.

Activities initiated in past years whose positive effects were still felt in 1986 resulted in another 1,200 jobs with an approximate wage value of $23 million. Provincial tax revenues were approximately $1.4 million.

Benefits arising from the Corporation's provision of rental properties and spin-off effects have not been included in these figures. Therefore, the actual impact of SEDCO's activities is far greater than reported.

Provincial Economic Benefits

	1986		1985	
	1986 Only	Continuing	1985 Only	Continuing
Net Incremental Employment				
Loans	224	1,392	174	1,611
Lease Options/Agreements for Sale	27	51	16	38
Construction	209	209	33	33
TOTAL	460	1,652	223	1,682
Wage Value				
Loans	$4,497,272	$27,781,156	$3,985,313	$32,211,386
Lease Options/Agreements for Sale	453,039	966,730	334,514	833,582
Construction	4,807,000	4,807,000	723,030	723,030
TOTAL	$9,757,311	$33,554,886	$5,042,857	$33,767,998
Tax Revenue				
Loans	$ 278,830	$ 1,722,432	$ 247,285	$ 1,905,776
Lease Options/Agreements for Sale	28,088	59,937	20,304	51,585
Construction	298,034	298,034	44,979	44,979
TOTAL	$ 604,952	$ 2,080,403	$ 312,568	$ 2,002,340

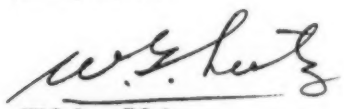
Auditor's Report

To the Members of the
Legislative Assembly
Province of Saskatchewan

I have examined the statement of financial position of the Saskatchewan Economic Development Corporation as at December 31, 1986 and the statements of operations and deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Saskatchewan Economic Development Corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Regina, Saskatchewan
January 30, 1987



W.G. Lutz, F.C.A.
Provincial Auditor

Statement of Financial Position

As at December 31

	1986	1985
	(in thousands)	
Assets		
Loans—net (Note 3)	$ 127,017	$ 97,037
Share investments (Note 4)	1,118	4,477
Property holdings (Note 5)	48,674	47,677
Other	1,722	963
	$178,531	$150,154
Liabilities and Province's Equity		
Liabilities		
Net bank indebtedness	$ 48	$ 568
Accounts payable and accrued liabilities	4,032	1,999
Notes payable (Note 6)	15,809	45,000
Long term debt (Note 6)	155,647	89,647
	175,536	137,214
Province of Saskatchewan's Equity		
Advances (Note 7)	28,702	28,702
Contributed surplus (Note 8)	158	158
Deficit	(25,865)	(15,920)
	2,995	12,940
	$178,531	$150,154

(See accompanying notes)

Statement of Operations and Deficit

Year Ended December 31

	1986	1985
	(in thousands)	
Revenue		
Revenue from loans and investments	$13,557	$12,831
Revenue from properties (Note 9)	5,034	4,789
	18,591	17,620
Expenses		
Interest	12,474	12,479
Rental property expenses	2,223	2,004
General corporate expenses	3,235	3,247
	17,932	17,730
Profit (loss) before the under-noted items	659	(110)
Bad debt expense (recovery)	3,984	(223)
Write-down of property to net realizable value	3,308	315
Write-down of share investments to net realizable value	3,312	360
Loss for Year	9,945	562
Deficit, beginning of year as restated (Note 13)	15,920	15,358
Deficit End of Year	$25,865	$15,920

(See accompanying notes)

Statement of Changes in Financial Position

Year Ended December 31

	1986	1985
	(in thousands)	
Cash Provided by (used in) Operating Activities		
Loss for the Year	$(9,945)	$ (562)
Add: Charges to operations not requiring cash payment		
Depreciation	492	612
Bad debt expense (recovery)	3,984	(223)
Write-down of property values	3,308	315
Write-down of share values	3,312	360
	1,151	502
Net change in non-cash working capital balances related to operations	(855)	(2,706)
Cash provided by (used in) operating activities	296	(2,204)
Cash Provided by (used in) Investment Activities		
Loans:		
Disbursements	(40,946)	(11,391)
Repayments	10,780	14,509
Property disposals financed	(3,537)	—
Share Investments:		
Purchased	—	(47)
Sold	47	53
Property Holdings:		
Additions	(9,904)	(4,021)
Proceeds from disposals	3,438	4,900
Disposals financed by loans	3,537	—
Cash (used in) provided by investment activities	(36,585)	4,003
Cash Provided by (used in) Financing Activities		
Proceeds of long term debt	66,000	—
Repayment of long term debt	—	(44,500)
Additions (reductions) to short term debt—net	(29,191)	43,000
Cash received (used) in financing activities	36,809	(1,500)
Net Increase in Cash During Year	520	299
Cash position at beginning of year	(568)	(867)
Cash Position at End of Year	$ (48)	$ (568)

(See accompanying notes)

Notes to the Financial Statements

December 31, 1986

1. Significant Accounting Policies

a) ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts in arrears are reviewed on a regular basis by management. Where a potential loss is identified, the exposure is compared to the estimated value of the security and an appropriate provision is established. Interest revenue is not accrued for accounting purposes on loans where a write-off is anticipated.

b) DEPRECIATION

Depreciation is calculated using the straight line method of depreciation at rates varying from 2% to 33 1/3% on all depreciable properties except the Research Park property in Saskatoon. Depreciation on the Research Park property is provided under the sinking fund method. Under this method depreciation is charged to income in amounts which increase annually consisting of fixed annual sums together with interest compounded at the rate of 5% per annum so as to fully depreciate the property over its estimated useful life. The property consists of buildings with an estimated useful life of 50 years and sites and improvements with an estimated useful life of 33 years.

c) PROPERTY UNDER DEVELOPMENT

Property under development is carried at the lower of cost or net realizable value.

The Corporation capitalizes the following in arriving at the cost of property under development: land acquisition costs; direct development costs; administration costs allocated; interest.

Estimated total development costs are taken into consideration in calculating gains or losses on sale of parcels of land forming part of industrial development. Gains or losses from sales are recognized at the date nonconditional offers to purchase are approved by the Corporation and appropriate consideration has been received.

d) SHARE INVESTMENTS

The Corporation has acquired shares in both public and private companies which are carried at the lower of cost or net realizable value. In the case where there is a parent-subsidiary relationship, the subsidiary is not consolidated with the accounts of the Corporation as a formal plan exists to dispose of the investment. Dividends are recorded as income when received.

2. Status of the Corporation

The Corporation was incorporated in 1963 pursuant to The Industrial Development Act. The financial results of the Corporation are included in the consolidated financial statements of the Crown Investments Corporation of Saskatchewan.

3. Loans

	1986	1985
	(in thousands)	
Loan principal receivable	$128,576	$100,307
Interest accrued and receivable	3,488	3,807
Loan costs receivable	743	688
	$132,807	$104,802
Agreements for sale	3,791	1,735
Lease options less unearned income of $533,000 (1985—$792,000)	608	814
TOTAL LOANS	137,206	107,351
Less accumulated provision for doubtful accounts	10,189	10,314
Net Loans	$ 127,017	$ 97,037

Included in the loans balance is $10,029,000 (1985—$4,896,000) from Westank Industries Ltd. a subsidiary. During 1986, the Corporation accrued interest on these loans totalling $1,011,000 (1985—$930,000) received $879,000 (1985—$542,000) in payments and disbursed $5,001,000 (1985—$9,000).

4. Share Investments

	1986	1985
	(in thousands)	
At Cost		
Shares in subsidiary companies	$ 11,280	$ 11,280
Shares in listed companies	1,000	1,047
Shares in unlisted companies	820	1,380
	13,100	13,707
Accumulated provision for losses	11,982	9,230
	$ 1,118	$ 4,477

During 1985, $11,000,000 in loans receivable from Westank Industries Ltd. (Westank) were converted to 4,000,000 common shares and 7,000,000 preferred shares. This conversion resulted in SEDCO increasing its ownership of Westank to 99.9% from 88.2%.

5. Property Holdings

	1986	1985
	(in thousands)	
Property under development for industrial purposes (lower of cost or net realizable value)	$ 25,474	$ 26,059
Other land, buildings, improvements and equipment (lower of cost or net realizable value):		
Rental properties	23,026	24,210
Rental properties under construction	1,663	415
Office furniture & equipment	771	607
	25,460	25,232
TOTAL PROPERTY HOLDINGS	50,934	51,291
Less accumulated depreciation	2,260	3,614
	$ 48,674	$ 47,677

Depreciation for the year amounted to $492,000 (1985—$612,000). The average depreciation rate for assets was 2.3% (1985—2.2%).

6. Notes Payable and Long Term Debt

		1986	1985
		(in thousands)	
NOTES PAYABLE			
Province of Saskatchewan			
January 5, 1987	8.30%	$ 4,043	$ —
March 31, 1987 (1985—9.35%)	8.33%	6,900	45,000
December 31, 1987	0.00%	4,866	—
		$ 15,809	$45,000
LONG TERM DEBT			
Province of Saskatchewan*			
January 15, 1991	9.50%	$ 16,000	$ —
June 1, 1991	7.20%	5,000	5,000
June 3, 1994	8.46%	7,383	7,383
October 1, 1995	9.34%	3,857	3,857
June 1, 1998	9.41%	8,407	8,407
June 2, 2006	9.62%	10,000	—
		50,647	24,647
Crown Investments Corporation of Saskatchewan			
June 17, 1987	9.89 %	$ 15,000	$15,000
August 18, 1987	16.625%	15,000	15,000
December 29, 1987	11.75 %	10,000	10,000
December 29, 1987	11.75 %	10,000	10,000
December 21, 1988	10.75 %	15,000	15,000
December 30, 1991	9.08 %	15,000	—
May 28, 1993	8.73 %	15,000	—
April 16, 1996	9.90 %	10,000	—
		105,000	65,000
TOTAL LONG TERM DEBT		$155,647	$89,647

*Debt of $34,647,000 (1985 — $24,647,000) with an original term of 20 years, is subject to redemption on 6 months' notice.

7. Equity Advances

These advances are interest-free and are payable at the discretion of the Crown Investments Corporation of Saskatchewan.

8. Contributed Surplus

This represents surplus Crown properties having industrial potential that have been received for nominal amounts.

9. Revenue From Properties

This includes gains of $855,000 on the sale of properties. (1985 gain of $435,000).

10. Contingent Liabilities

As at December 31, 1986, the Corporation was contingently liable under loan guarantees in the amount of $1,691,000.

11. Commitments

a) The total amount not yet disbursed on loans approved is $31,300,000.
b) The Corporation has approved guarantees which were in force but not used at December 31, 1986 amounting to $83,000.
c) The costs to complete properties approved for development approximate $5,400,000.

12. Related Party Transactions

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan controlled departments, agencies and corporations with which the Corporation is related.

Account balances resulting from these transactions are included in the Statement of Financial Position and are settled on normal trade terms.

Other amounts owing to related parties and their terms of settlements are described separately in the financial statements and the notes thereto.

13. Deficit

As a result of capital tax reassessments applicable to the years 1980-1984 the balance of the deficit at January 1, 1985 has been reduced by $386,000 representing the cumulative amount by which capital taxes as at that date had been decreased.

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For additional copies of this annual report, or for further information about SEDCO programs in all areas of operation, kindly contact:

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SEDCO